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Venture Capital Career Primer

2017–2018

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Interview Primers

Chicago Booth School of Business Interview Primer

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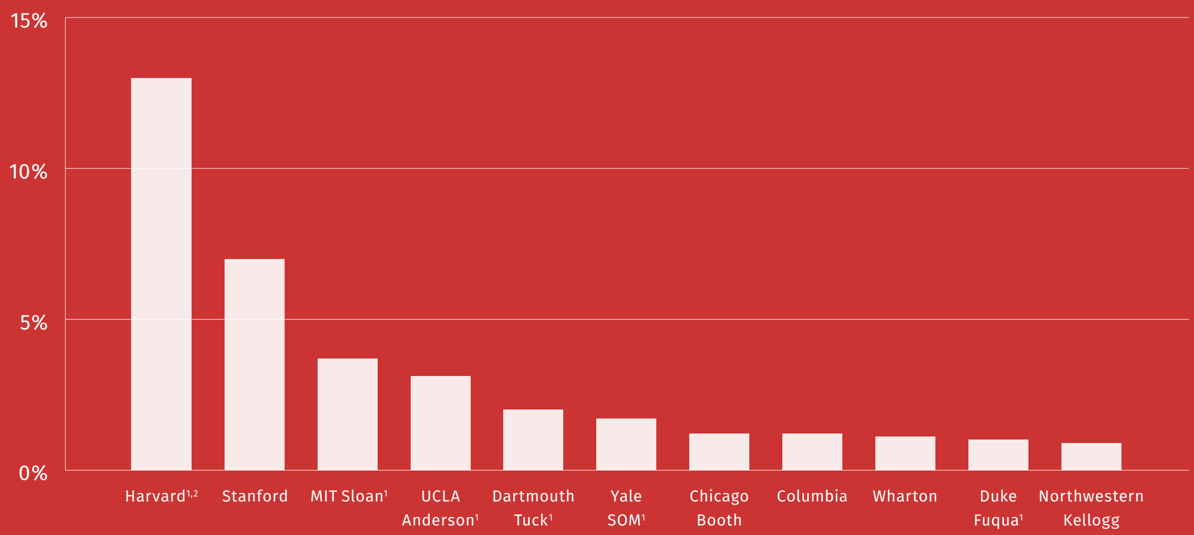
What do the data say about venture capital recruiting?

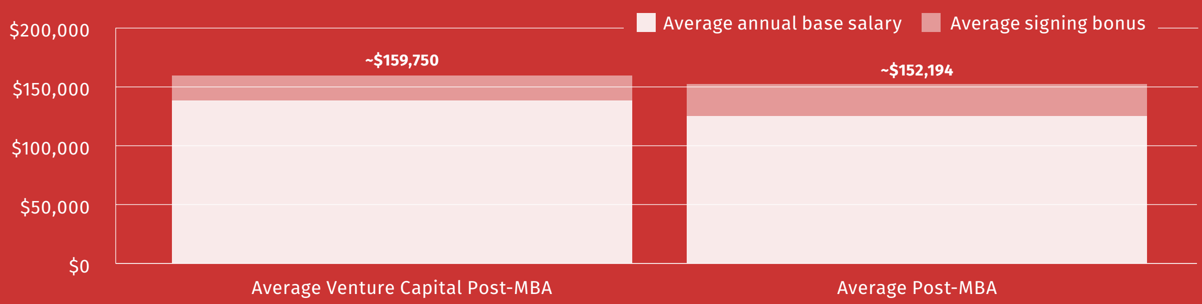
Percentage of the MBA Class of 2016 Taking Venture Capital Jobs



[1] *Includes private equity* [2] *Includes leveraged buyouts (LBOs)*

Source: School employment reports

Compensation for Venture Capital Positions

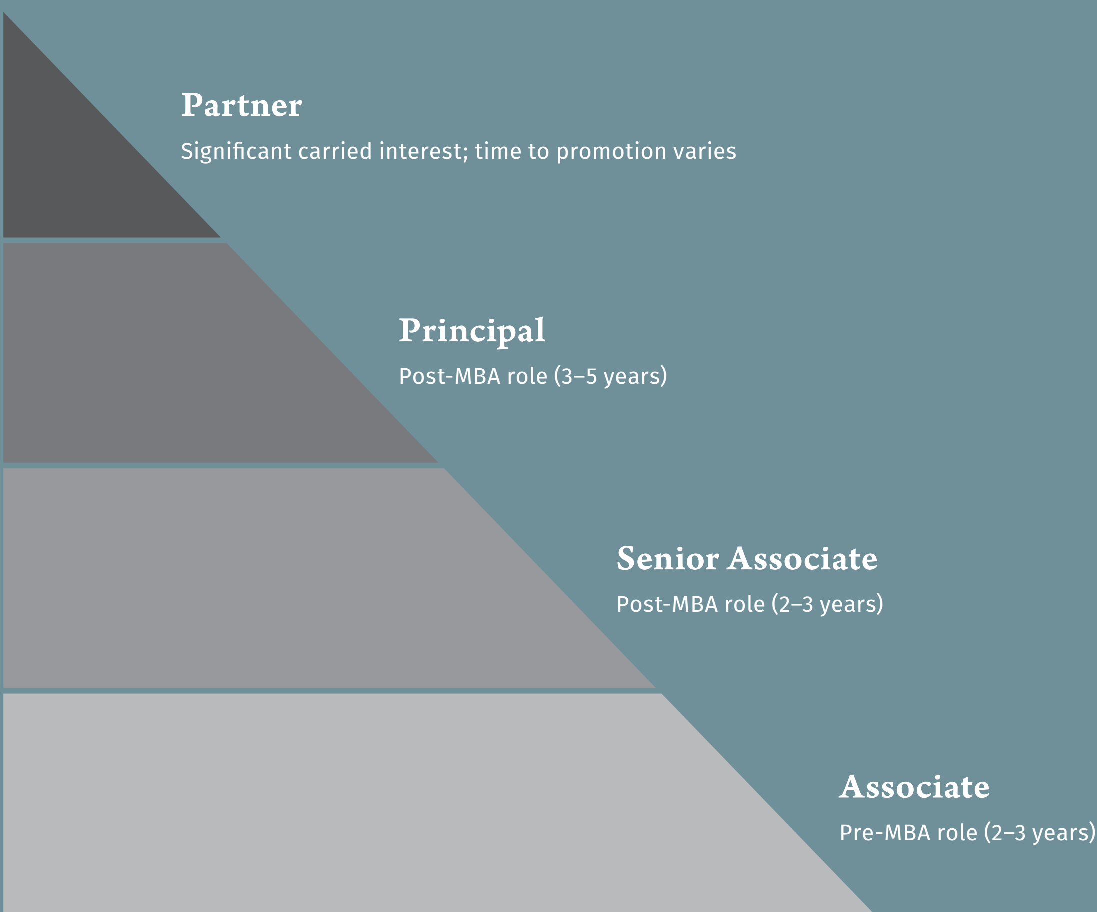


Source: School employment reports

Although venture capital (VC) jobs are in demand, opportunities for MBAs are fairly scarce within the industry. Only a small percentage of students from top-ranked MBA programs enter the industry immediately after graduation.

The Org Chart

As an MBA, you will likely interview for a senior associate role. VC teams are generally small and have open cultures, where the voices of even the most junior staff carry weight in the investment process. Some firms rely heavily on senior associates to source potential investments, while other firms expect them to focus on internal duties (e.g., conducting market research, reviewing business plans, creating investment memorandums). At the partner and principal levels, you will be responsible for fund-raising, signing off on all investments, and steering the direction of the firm.



What is the job?

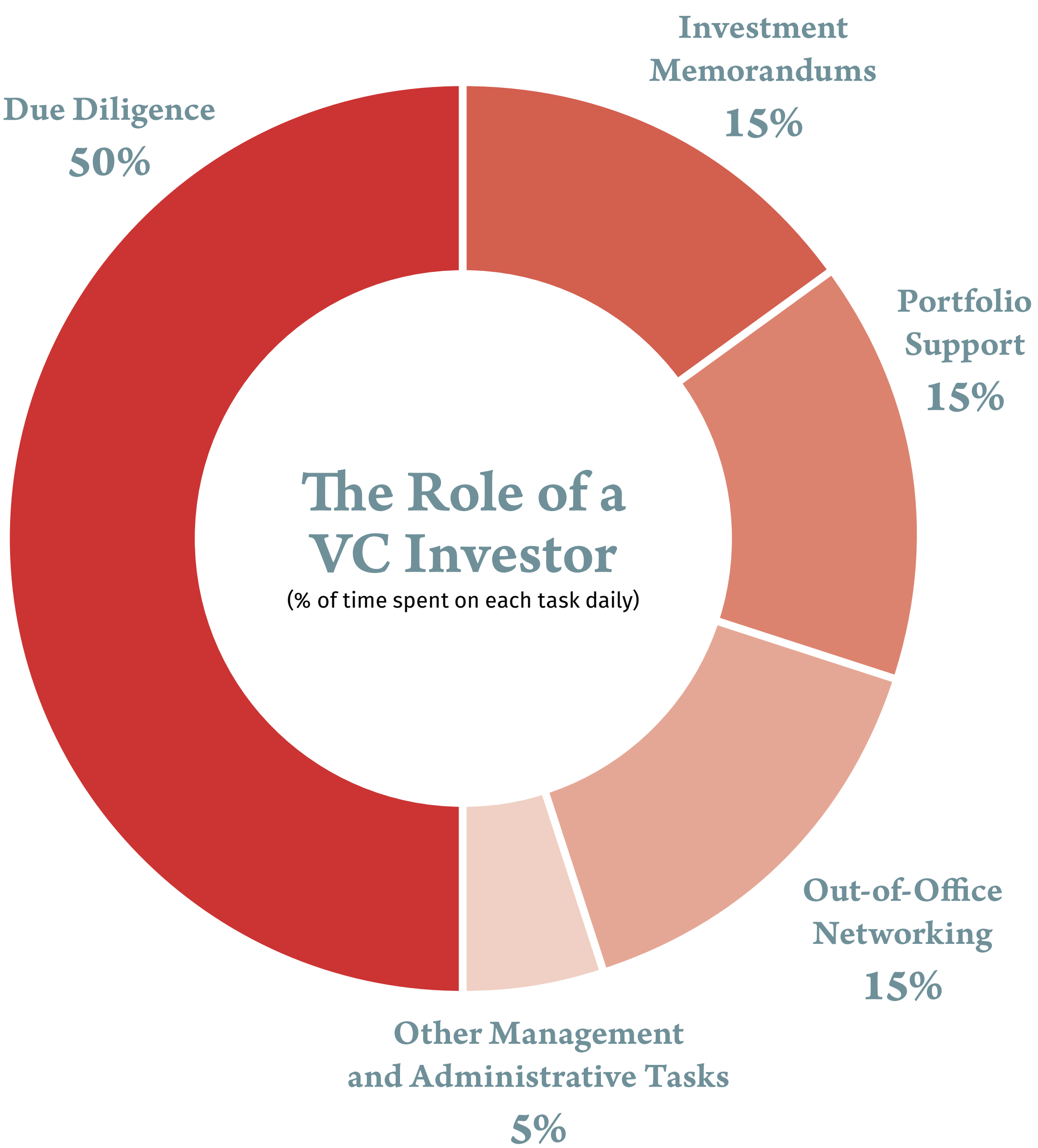
Venture capital firms invest in young, high-risk, high-potential companies. VC investors think big—after all, their job is to discover the next blockbuster company like Facebook or Google. Using pools of capital raised by third-party investors (typically pension funds and high-net-worth individuals), VC firms take ownership stakes in young companies, with the hopes that those companies will ultimately be acquired or go public via an IPO (initial public offering). An acquisition or an IPO, however, is a special milestone that only a small percentage of start-ups will ever achieve. In fact, according to Harvard Business School (HBS), 75% of all venture-backed companies do not return investor capital. The business model works because the small percentage of companies that do succeed generate cash windfalls for the VC firm that more than offset any losses. VC investors can expect to earn returns of 10–20 times, if not more, on their top investments.

VC investors do a lot more than just write checks, however. In addition to infusing capital, VC firms add value to their portfolio companies through active participation in management. Large investors will often “take a seat” on the company’s board of directors, but all will serve as advisors to the company’s leadership team. Many VC investors, in fact, have experience starting or working within start-ups, so they can help young founders make accurate judgment calls. Moreover, they are advocates for their portfolio companies. They are well connected and can help facilitate customer introductions, establish partnerships, and spread the word. VC investors even assist companies with finding other investors. They almost always invest in companies alongside other VC firms (a process known as “syndicating”) to mitigate risk.

No, really, what is the job?

All this sounds pretty sexy, but what do VC investors actually *do*?

The VC investor role is a diverse one. It combines elements of consulting and finance, and it requires building relationships with entrepreneurs and other investors. We asked a wide range of VC investors how they spend their time. The following chart summarizes their responses.



Due Diligence (50%)

VC investors use the due diligence process to decide whether or not to invest in a company. This process can be broken down into two activities. The first is meeting with founders and reading their business plans. VC investors typically meet with the management teams of two or three companies per day. However, because of the high volume and varying quality of start-ups, investors usually only meet with teams that have been referred to them by other firms and trusted people in their network.

The second due diligence activity is market research. VC investors spend a significant amount of time sizing the market of a potential investment, defining current and potential competitors, and understanding industry trends that are critical to making a sound investment. Consulting skills help VC investors tremendously in this activity.

Investment Memorandums (15%)

An investment memorandum is a formal proposal that is prepared for the VC firm's partners or investment committee and that details the rationale behind, financial plan for, and possible returns of a potential investment. When a VC firm believes a company is a good match for its portfolio and is ready to invest, the junior staff at the firm will put this document together.

Portfolio Support (15%)

As mentioned, money is only one of the many assets VC firms provide for their portfolio companies. VC investors advise their companies on ways to grow. This support can range from helping the company prepare for an important presentation to making introductions to potential customers and building the company's financial models.

Out-of-Office Networking (15%)

VC operates within a small, tight-knit community. Firms almost always co-invest on deals. Consequently, maintaining good relationships with other VC firms and staying close to entrepreneurs is a must. Expect happy hours and dinners out during the week.

Other Management and Administrative Tasks (5%)

From organizing paperwork to helping manage calendars, a VC firm's junior staff is often responsible for making sure day-to-day operations are in order. This might include serving as a liaison with the firm's lawyers, following up with potential entrepreneurs, and sending updates to investors on the firm's performance.

What about work hours and travel?

In a regular week, a VC investor may work 40–50 hours, but that number can double if the company must close on an investment (or multiple investments) quickly. VC firms typically like to invest in companies that are geographically close so they can more easily keep an eye on them. However, a firm might take an interest in a company in another city if it strongly believes in the company's potential. Investors at certain East Coast VC firms travel to San Francisco—the world's start-up hub—on a monthly or sometimes weekly basis to meet with the leadership teams who represent potential investments and to keep abreast of the latest trends.

What is good about the job?

VC is one of the most desirable industries to enter—and for good reason. At most firms, you will be given immense responsibility in your first six months, including screening start-ups and making investment recommendations while conducting financial analyses and other due diligence behind the scenes. This exposure to hundreds of companies will help you think critically as an investor and position you as a thought leader on a handful of industry trends.

A job in VC has five key benefits:

- A front seat to the latest innovations
- A high-powered network of VC investors and entrepreneurs
- An opportunity to get involved in helping a company grow
- Generous compensation and benefits
- A great work/life balance (compared with investment banking, consulting, and private equity)

But surely the job has pain points, right?

A VC role does have some potential drawbacks:

- **An uncertain career path**: The potential to be promoted usually exists only if individual performance is strong and the company decides to raise another fund.
- **A top-heavy organizational structure**: Usually a small junior team does most of the work and must be comfortable with a high degree of multitasking and flexibility.
- **Long hours**: Evenings are often spent networking with entrepreneurs and members of other VC firms.
- **Pay based on a fund's long-term success**: VC investors must wait several years to receive their bonus payout (known as "carried interest") for a fund. To realize carried interest, an investor often must remain with the fund for its entire life-span (seven to ten years).
- **Cross-country travel** (especially for East Coast VC investors)

What are the characteristics of VC firms?

VC firms come in many different shapes and sizes, and no two are really alike.

Fund Size
(e.g., Small <$100M vs. Large $1B+)
How much money does the fund manage?

Geographical Focus
(e.g., United States vs. India vs. Israel)
Where does the fund invest its money?

Sector
(e.g., Health Care vs. IT vs. Cleantech)
In what types of companies does the fund invest?

Stage
(e.g., Series Seed vs. Series A vs. Series B)
At what stage does the company invest its money?

Stage	Stage Attributes	Investment Size
Seed	• The founding team is established. • The company generally earns little to no revenue. • Usually a basic version of the product has been produced.	$500K–$3M
Series A	• The company generally earns low revenue but is growing rapidly. • The core management and operational team is assembled. • The first edition of the product is out.	$1.5M–$10M
Series B	• Revenue is fairly substantial, but the firm is often unprofitable. • The company is “grown up” and is no longer composed of a small team.	$5M–$20M
Series C (and after)	• The company is profitable. • The company is seeking funding for a major expansion.	Varies

Source: Columbia Business School Private Equity & Venture Capital Club

Who are the big fish?

Company	Year Founded	Headquarters	Funds Raised	Selected Investments
ACCEL PARTNERS	1983	Palo Alto, CA	$10.01B	Facebook Groupon Dropbox Spotify Kayak
ANDREESSEN HOROWITZ	2009	Menlo Park, CA	$5.85B	Skype Instagram Airbnb Oculus Rift
BENCHMARK	1995	San Francisco, CA	$1.50B	Marin Software OpenTable Snapchat Yelp Juniper Networks
BESSEMER VENTURE PARTNERS	1911	Menlo Park, CA	$3.55B	LinkedIn Skype Staples VeriSign Yelp
First Round	2004	Menlo Park, CA	$738.0M	Uber Square Warby Parker Mint
greylockpartners.	1965	Menlo Park, CA (large office in Cambridge, MA)*	$3.10B	Facebook LinkedIn Airbnb Cloudera Pandora
KPCB KLEINER PERKINS CAUFIELD BYERS	1972	Menlo Park, CA	$2.68B	Amazon.com AOL Flextronics Google Netscape

Company	Year Founded	Headquarters	Funds Raised	Selected Investments
NEA	1977	Menlo Park, CA	$13.35B	MongoDB Workday Groupon Salesforce.com Box
SEQUOIA	1972	Menlo Park, CA	$7.70B	Airbnb Apple Google LinkedIn YouTube
USV	2003	New York, NY	$966.8M	Foursquare Kickstarter Twitter Tumblr Zynga

**Note: Although Greylock was founded in Menlo Park, California, the company has become an important player in East Coast VC.*

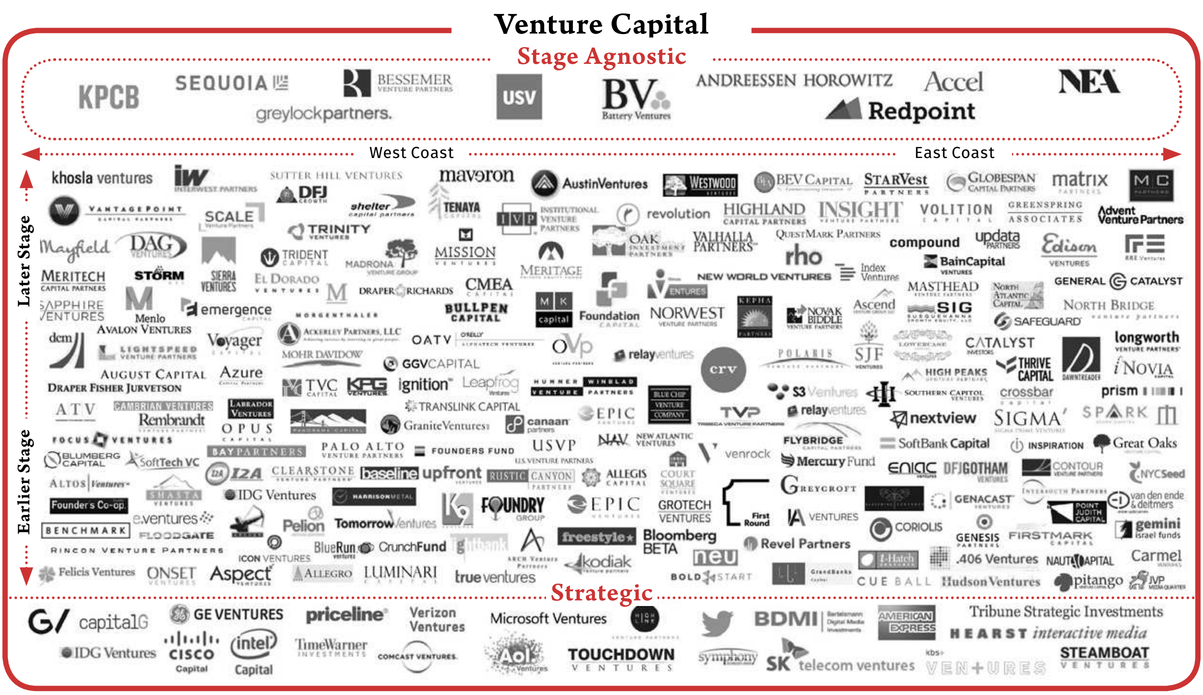
Source: Venture capital firm Web sites, CB Insights database, and CrunchBase database

Pro Tip:

Fred Wilson, the founder of Union Square Ventures, has a daily blog (**www.avc.com**) that is read by the vast majority of VC investors. He is considered a celebrity within the industry.

Who are other notable players in this space?

Many successful VC firms are located across the United States and focus on different stages (see page 11) or sectors (e.g., technology, biotechnology). Unlike the consulting industry, which has a clearly defined top three firms, VC encompasses dozens of prestigious establishments. The field also includes strategic investors, such as GV (formerly Google Ventures) and Bloomberg Beta, which are investment groups that operate within larger organizations. These groups act and look very similar to other VC funds. However, they usually operate independently from their parent company.



Source: LUMA Partners

Where are U.S. VC firms investing?

The San Francisco Bay Area and the Boston-New York-Washington, DC area are the most important VC hubs in the United States. These two areas combined account for more than 40% of all VC investments.

Top Ten U.S. Locations for VC Investments

Rank	Metropolitan Area (listed by core city)	Dollars (millions)	Share of Total Dollars
1	San Francisco, CA	$6,471	15.4%
2	San Jose, CA	$4,175	9.9%
3	Boston, MA	$3,144	7.5%
4	New York, NY	$2,106	5.0%
5	Los Angeles, CA	$1,450	3.4%
6	San Diego, CA	$1,410	3.3%
7	Washington, DC	$835	2.0%
8	Seattle, WA	$727	1.7%
9	Chicago, IL	$688	1.6%
10	Austin, TX	$626	1.5%

Source: The Atlantic, *2016*

How do the economics of a VC firm work?

VC economics typically focus on management fees and carried interest. Let us explore the economics of a fund, using a $100M fund as an example.

The fund will charge an annual 2% management fee of the fund size to cover salaries, legal expenses, and other day-to-day operating costs. *This totals $2M per year.*

It also charges a one-time 20% carried interest fee at the end of the fund. Carried interest is the share of the fund's *profits* split among the investment team. This, of course, varies based on the fund's performance, and most of the carried interest is allocated to the VC firm's partners. Suppose a fund has a 4x return. Carried interest would then be ($100M x 4) – $100M (initial investment) x 20%. *This totals $60M in carried interest*.

As we noted earlier, compensation for a post-MBA associate varies widely by firm, but the average starting salary is roughly $140K, with an average signing bonus of around $20K.

How do I get the job?

More than one path is available to becoming a VC investor

VC funds favor applicants with start-up experience (especially those who have founded a company) and engineering backgrounds. VC firms prefer individuals with these backgrounds because they have firsthand experience founding a company and have been through the learning process of building and scaling a company. Many former consultants and investment bankers work in VC because the roles are similar. Bankers bring financial modeling expertise, while consultants are able to quickly understand and assess market landscapes.

No formal recruiting process exists because most VC firms have small teams

Do not expect to attend corporate presentations or receive emails from recruiters. VC firms hire "on-time," meaning when someone leaves the company or when the company raises a new fund. Unlike consulting or investment banking recruiting, wherein new full-time employees are hired each fall, VC recruiting occurs on an ad-hoc basis. Candidates hear about opportunities by word of mouth because many companies do not necessarily post formal job listings on their Web sites. Networking is vital in this industry. Successful VC applicants are familiar faces in the entrepreneurship community. They attend tech meet-ups, are active on Twitter and other social media outlets, and have crossed paths with local VC investors and entrepreneurs. Discovering the next big company requires that you live and breathe the local start-up scene, so VC firms want to see that you are well connected. Staying top of mind will help you secure that coveted VC spot when it becomes available.

Interview Sample Questions and Advice

Here are five tips for successful interviewing:

1. Be familiar with a fund's portfolio, which is always listed on the firm's Web site. Which companies within it do you like and why?
2. Stay on top of the latest tech news. The Web site TechCrunch is a great starting point.
3. Have a point of view on the industry. In which start-ups would you invest and why? What industry trends are you observing?
4. Be prepared for technical questions. Understand capitalization tables (tables outlining the ownership of founders, employees, and investors after each injection of funding, also known as simply cap tables) and general ways of valuing start-ups.
5. Never wear a suit. VC investors work with entrepreneurs, who are typically informal. Keep your attire smart casual. Slacks and a dress shirt would be appropriate. Depending on the fund, you may find the team to be dressed even more casually.

If VC is your chosen industry for a summer internship or post-MBA position, get started now building your network, conducting informational interviews with classmates and friends at target firms, creating a VC-targeted resume, and preparing for interviews. To learn more about how an MBA Career Coach can assist you in securing a VC position by guiding you effectively through each step of the recruitment process, schedule a free consultation with us at **www.mbamission.com**.

Your Post-MBA Career

Starts Now!

Whether you are entering business school this fall, writing your applications, or just starting to look at MBA programs, now is the time to start thinking about your long-term professional path.

Explore your options and learn about typical post-MBA fields—including consulting, investment banking, and private equity—by downloading our free **Career Primers**.

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For help defining and preparing to execute your personal career plan once you have been accepted but before you even set foot on campus, sign up for a free 30-minute consultation with one of our Career Coaches: **www.mbamission.com/careerconsult**.

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